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DEPARTMENT PASS TO USTR (AGAMA)
DEPT OF TREASURY FOR DPETERS
DEPT OF COMMERCE FOR 3317/ITA/OA/KBURRESS
DEPT OF ENERGY FOR CAROLINE GAY

E.O. 12598: N/A

TAGS: [ENRG](#) [ECON](#) [EINV](#) [NI](#)

SUBJECT: NIGERIA: ELECTRICITY GENERATION UPDATE

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11. Summary. Nigerian Electricity Regulatory Agency (NERC) was established in 2005 to regulate electricity generation, as a first step in unbundling, privatizing and attracting new investment in the power sector. Chronic electricity shortages have hindered social and economic growth in Nigeria. The GON continues to approve new projects, but recently acknowledged that the December 2007 target date of 10,000 Megawatts (MW) of production would not be reached. Many projects are in the Niger Delta region, which is plagued by violence. Further most projects will use natural gas as fuel yet supplies are neither physically nor contractually secured. The sequencing of generation, transmission and distribution upgrades may slow power entering the grid. End Summary.

STATE OF THE INDUSTRY

12. At a forum in Abuja, NERC Chairman Dr. Ransome Owan and other energy officials discussed the state of power generation in Nigeria. Since its creation, NERC has granted generation licenses to twenty independent power producers to generate a total of 8,237.50 MW of electricity by the year 2010. These are in addition to the seven on-going GON projects that were slated to bring the national capacity to 10,000 MW by December 2007. On June 19, NERC granted four new licenses for Independent Power Projects (IPPs). The four licenses are Shell Petroleum Development Company to generate 642 MW from Afam in Rivers State; Ibafo Power Station Limited to generate 200 MW from Ibafo in Ogun State; Western Technologies and Energy Services to generate 50 MW and 1000 MW at Buena Vista Estate at Lekki in Lagos State and Maya Ajegunle in Ogun State respectively; and Hudson Power Limited to generate 50 MW at Wara in Ogun State.

13. Joseph Makoju, the Special Adviser to the President on Electric Power, reported that the December 2007 target date was no longer feasible because of local communal clashes in the Niger Delta where many projects are located. Makoju put the new expected completion date at June 2008. He said that power generation had improved to 3,200 MW in April 2007, but recent press items reported that generation had dropped back below 2,000 MW in June. The two power plants of combined capacity of 670 MW in Ondo and Ogun states commissioned in May 2007, were not yet operational because power evacuation and grid line projects are not completed, but would be by the end of 2007, according to Makoju.

NERC PRIMER

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14. The NERC was set up as the electric power sector regulator under Nigeria's Electric Power Sector Reforms (EPSR) Act of May 2005. The NERC is empowered to make regulations on arbitrations, licensing, customer matters, market monitoring, and fines and penalties. NERC has the exclusive responsibility to license companies to generate, transmit and distribute electricity. It is responsible for establishing the regulatory framework within which power companies operate. Dr. Owan reported that to promote competition and private sector participation, the NERC seeks to allow for prudent cost recovery and reasonable margins, using a model Power Purchase Agreement (PPA) review process that addresses cost recovery, profit and risk sharing. The NERC has launched a nationwide customer awareness campaign to enlighten electricity consumers and stakeholders on NERC activities and their rights and obligations in a market-driven power sector. NERC also is presenting the framework it is devising to encourage private investment in power generation and distribution.

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INVESTMENT OPPORTUNITIES IN THE POWER SECTOR

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15. Dr. Owan promoted Nigeria's electricity sector as holding great potential following deregulation. He underscored that Nigeria's power sector reforms sought to create reliable and efficient electricity at affordable prices in a business friendly environment with a cost-effective tariff and cost recovery. The NERC's cardinal mission was to attract private sector investment in the power industry by creating fair and stable regulations for all players, sanctity of contracts, full protection of investments, and 100% profit repatriation. He estimated that Nigeria's power sector had unmet demand in excess of 20,000 MW, and urged investors to take advantage. The NERC was holding workshops and seminars on safety and health standards. The NERC had received funding from the United States Government on safety standards.

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OTHER ISSUES

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16. Electricity generation continues to be a thorny issue in Nigeria as chronic power shortages hinder social and economic development. The NERC's role is to create a sound regulatory regime that promotes private sector entry and competition in the sector. Many pieces of the puzzle also need to be put in place, however. Many new plants are located in the Niger Delta, close to fuel supplies, but are threatened by security and safety issues. Secondly plans to build a network to supply natural gas to many of the new power plants and locations are lagging behind. Most plants have not secured natural gas supply contracts, and the absence of effective regulation in the natural gas sector is a further hindrance to gas-based power projects. Beyond the Delta, Nigeria lacks an adequate national grid to transmit power generated from even two of the recently commissioned plants in Ondo and Ogun states, demonstrating problems with the sequencing of generation, transmission and distribution projects and upgrades. Finally the privatization process has been repeatedly stopped and started and subject to mammoth political interference, leaving many existing elements of the existing infrastructure in legal limbo. If the GON is serious, focused attention needs to be brought to bear, and coordinated action needs to be taken, on the many issues hindering progress in the power sector, despite literally billions of dollars in government investment.

CAMPBELL